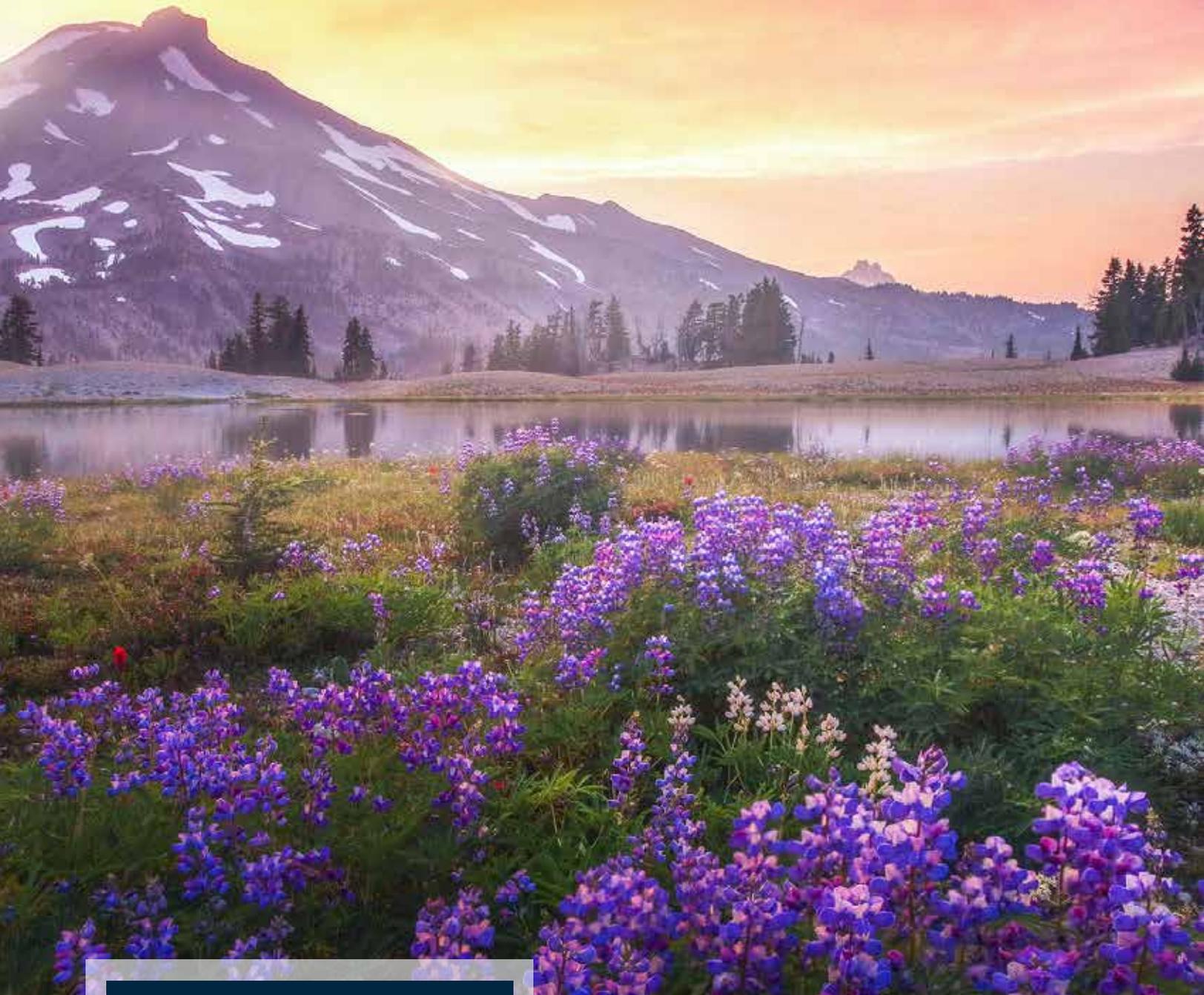


REAL ESTATE ANALYSIS



Cascade
Sotheby's
INTERNATIONAL REALTY

STATE OF THE MARKET

FALL 2020

A LETTER FROM BRIAN LADD



SEPTEMBER 15, 2020 STATE OF THE MARKET

As I reviewed our 2020 Housing Outlook from January, I was reassured that even reading it through the new lens of the recent pandemic and economic disruptions, our analysis and outlook of the market held true. Wise real estate investments are made with a calm hand, over years, and as part of an overall financial life plan.

Despite the recent and unprecedented disruptions, the Bend housing market is on solid footing—more desirable than ever with recent migration and remote-working trends—and our economy is displaying resilience that has been well earned over the last 12 years. My long-term belief in the strength and future of real estate in our amazing hometown has never been stronger.

It is my sincere goal that I can successfully interpret the economy and real estate market through the lens of my experience, all while providing impartial guidance that serves the long-term interests of our clients.

2020 RECAP

The first half of 2020 was unprecedented on many levels, including the sudden impact of the COVID-19 pandemic on both the overall economy and housing. We at the Ladd Group spent a lot of time digging deep into the data looking for parallels and were committed to understanding the underlying fundamentals—not simply regurgitating the emotionally charged yet insubstantial headlines.

What we found was a very strong housing market that simply “paused” for two months while the overall economy came to grips with the true effects of the pandemic.

Overall Economy, Stock Market, and Unemployment

While this may surprise many of you, housing does not have a direct correlation with the overall economy as evidenced by housing prices going up in 3 of the last 5 economic recessions [Chart 1]. Housing prices are primarily driven by a supply-and-demand cycle. That said, the record-low unemployment of 3.5% and a banner year in the stock market in 2019 provided additional upward pressure on an already strong housing market as we entered Q1 2020.

As the pandemic hit at the end of Q1, unemployment spiked dramatically and the overall economy and stock market received an unprecedented shock. Based on our research, we determined that the unemployment spike would be relatively short-lived, that much of the economy would recover in relatively short order, and that the underlying fundamentals of housing would remain relatively unchanged. These bullish projections have turned out to be in line with the actual outcome.

The type of the recovery is still being debated as the data comes out (“V”-shaped with a rapid rebound, “K”-shaped with different effects on different sectors, or even a “Nike-swoosh” shaped with a longer recovery period), and the Bend economy is recovering relatively well, but the lingering effects are most pronounced on small businesses and the service industry. While this is off the topic of housing, I feel compelled to voice my sadness about the small businesses at the heart of our community that are struggling to stay in business. I hope we as a community can all rally to save and support them.

Supply

Historically, housing corrections (price decreases) are driven by an over-supply of housing. Despite being at year 8 of an upward trend in pricing, we simply have a shortage of housing across the nation at an unprecedented scale. Banking regulations and practices have changed and the access to capital for builders and developers is constrained, resulting in a short supply of homes. In Bend, the limited access to financially feasible and “shovel ready” land with available infrastructure (sewer, road, etc) and zoning within our Urban Growth Boundary has provided additional constraints on development.

At the start of 2019, lack of affordable housing was slowing demand, and housing inventory was growing in 2 of 3 markets across the nation. However, by the year-end, only 1 in 10 markets were growing in inventory: a trend that has continued throughout 2020. This has hit particularly hard here in Central Oregon, which has less than 45 days of housing inventory (180 is considered balanced) on the market [Chart 4]. Regardless of other economic trends, this extreme lack of inventory is the primary upward driver on housing prices.

Demand and Migration

While demand is driven by many trends such as the growing job base in Bend and the expanding housing needs of the Millennial generation, who now account for 50% of all mortgage originations, the primary increase in demand for Bend

housing is driven by migration patterns that have increased dramatically throughout this pandemic.

As the pandemic forced at-home work and living for several months, there was a very measurable trend that emerged of people choosing to leave high-density cities (San Francisco, LA, Seattle) for lower density communities (suburbs and secondary cities such as Bend, Boise, and Bozeman). Historically, the Bend housing market is positively correlated to housing and rental prices in these markets, but our relationship has flipped; as rental and housing prices in these urban cores fall, Bend is witnessing an unprecedented level of sale activity with a year-over-year increase of 115%. This dramatic increase in sales activity is the most pronounced correlation to the pandemic shock and is one that will have long-lasting ramifications on housing prices and lack of affordability in Bend.

“As states, cities, and counties around the country slowly reopen, we predict The Great American Move. For safety reasons, financial prospects, life change improvements, personal comfort, and employment, we expect a surge in household and business relocations over the next few months that will provide new, strategic opportunities for the real estate market.” //
- John Burns Consulting

Monetary Policy and Interest Rates

A continuation of the Federal Reserve Policy, which started with a mid-year 2019 lowering of the Fed Funds rate, combined with the overall concern for the underlying fundamentals of the economy, has kept mortgage interest rates at historically low levels. This low interest rate environment significantly increases a buyer’s purchasing power, even with the headwinds of a high initial purchase price. I interpret these low interest rates as a form of “housing subsidy” that will lead to additional buyer demand.



CHART 7

Housing Prices

With this recent increase in buyer demand and historically low supply, housing prices have predictably increased sharply, with the average price of a home in Bend up 14.9% in one year [Chart 7]. This is an uncomfortable increase and one that has many side effects, including a lack of affordable workforce housing and headwinds to economic growth as businesses struggle to hire employees who can afford to live in our community. The age-old rule of supply and demand still stands, and supply will invariably try to catch up; however, the supply issues mentioned above and the timing of new homes on the market will be too late to mitigate current upward pricing pressures.

OUTLOOK

I have been dedicated to this industry for long enough to know that a definitive projection of the future is a fool’s errand. That said, I am asked daily on where the housing market is going, so I would be failing to serve our clients if I neglected to speak to my interpretation of the data.

The data and inputs suggest that even with, and partially due to, the massive disruption of the coronavirus pandemic, Bend will experience continued growth in the housing market with inventory challenges and upward price pressures, especially on houses listed at and below median prices. Both Fannie Mae and the National Association of Realtors predict housing price increases upwards of 4% nationwide for 2021, and I also foresee these same trends supporting price growth in Bend. The “Current Trends” section in this report is designed to help you interpret this data through the lens of either a buyer or a seller. I hope you find this helpful.

At the end of the day, it’s important that you turn to the experts for guidance. Real estate done well is done methodically, well-informed, confidently, and with the right team.

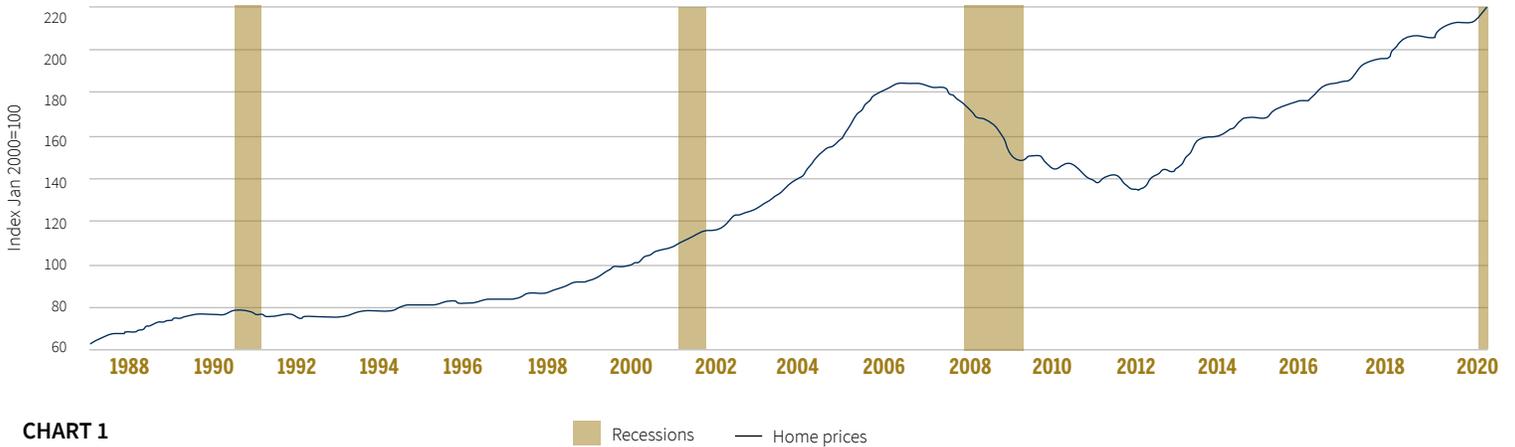
~Brian Ladd, September 2020

For further detail on our findings during the pandemic, check out our webinars at <https://www.bendpropertysource.com/ladd-group-webinars-and-events/>

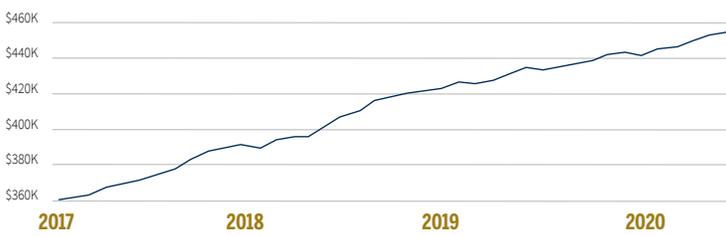
STATISTICS

HOUSING PRICE INDEX AND RECESSIONS

As the 40 year history below demonstrates, recessions are not directly correlated to a correction in housing prices. Home prices have actually increased in three of the last five recessions. In the last 40 years, recessions have always accompanied an increase in the real estate price index. The exception is the most recent recession, which was partially driven by sub-prime lending and overrun speculation on mortgage-backed securities, both of which are not prevalent today.



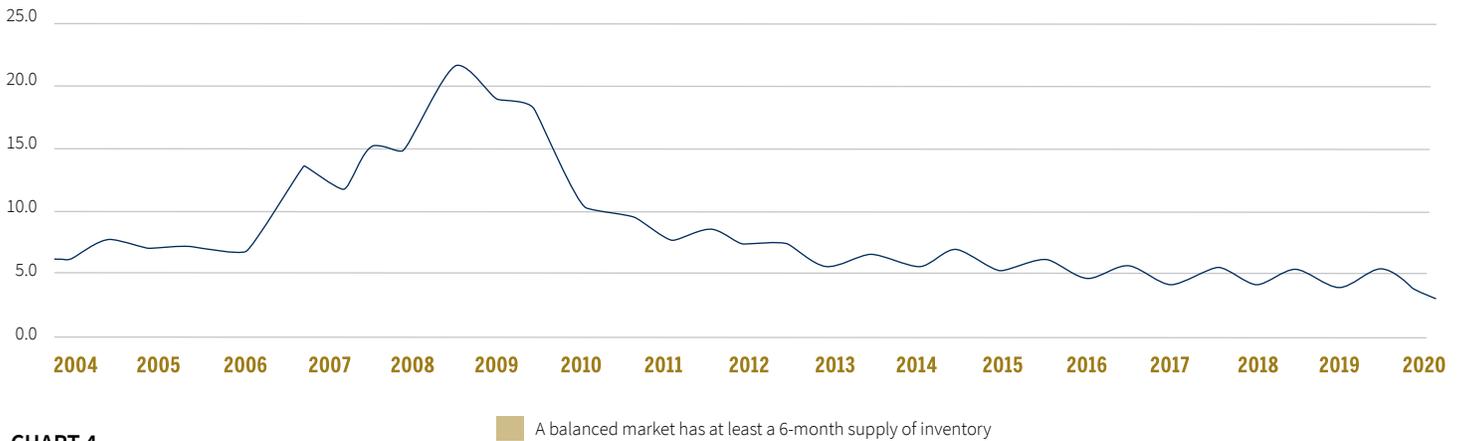
AVERAGE SALES PRICE DESCHUTES COUNTY



AVERAGE SALES PRICE \$999K AND UP - DESCHUTES COUNTY



BEND INVENTORY - MONTHS OF SUPPLY



REFERENCES:

- National Association of Realtors, Central Oregon Association of Realtors, and S&P Dow Jones Indices LLC.
https://www.bendbulletin.com/localstate/state/oregon-growing-at-4-times-national-rate/article_5fb10f8e-51af-11ea-9582-97c42a062e54.html
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- <https://www.mykcm.com/2020/09/01/its-not-just-about-the-price-of-the-home/>

BUYER'S CORNER



For buyers, 2020 has had conflicting signals, but wise purchases can still be made. Housing inventory remains a challenge, and homes are often listed at uncomfortably high prices for buyers. To prepare for house shopping, buyers need to get pre-qualified with a lender, have the right real estate agent guiding them, and be ready to make an offer when the right home hits the market. Casual buyers will not be successful in this market. While housing prices may seem high, trying to time the housing market is about as wise as trying to time the stock market. (Hint: It doesn't work.) The long-term trends in our market are on a solid footing and real estate purchases should never be made with a short-term outlook. Perhaps the brightest light for buyers are the extremely affordable interest rates on mortgages. The impact of this on your monthly mortgage payment is huge and should not be overlooked. A 1% increase in mortgage rates is equivalent to a 20% increase on a house price when it comes to your monthly payment. Don't miss this opportunity to tie up long-term (15, 30 year) loans that provide housing and financial security.

TAKEAWAYS:

- ✓ Housing inventory will remain tight so be ready. Do your research, select your agent, determine your budget, and get pre-approved for a loan ahead of time.
- ✓ Interest rates are at historical lows. Take advantage of this for long term financial peace of mind.
- ✓ Think long term. Real estate is a winner over the long run. Don't try to time the market.

SELLER'S CORNER



For sellers, the picture is a little different. Values have been climbing steadily for 8 years, so now is a good time to sell if your life plans or investment needs are changing. While inventory is tight and competition is lower, it's tempting to get greedy. However, there are still plenty of examples of over-priced homes languishing on the market and failing to sell. Overpriced homes often have a series of price drops and sell below market price. Price fairly, have the home prepared to shine in its best light, and find the right real estate team to market and negotiate the sale of the home. The right real estate team is worth their weight in gold when it comes to maximizing a sale price through a methodical and intentional process.

TAKEAWAYS:

- ✓ After years of price increases, it is a great time to divest and diversify.
- ✓ Don't allow greed to overwhelm your decision making. Over-priced homes do not sell and often become stigmatized.
- ✓ It is a nuanced market. Every area, neighborhood, and housing type is performing differently, so make sure to have a carefully-crafted sales strategy in mind.

BEND'S SUPERNORMAL MARKET - TRENDS, CHANGES, AND INSIGHTS

If the first half of 2020 has taught us anything, it's the importance of Home.

Our homes are now working overtime. No longer are they simply vessels for belongings, a place to sleep, or a venue for comfort and solace from a busy world, but they have evolved to become a gym, restaurant, office, school, and movie theater as well. Movement in real estate has been inevitable as buyers and sellers look to optimize their homes and communities to better suit their expanding needs.

The resulting flood of homebuyers is upon us, as buyers from out of our area reconsider their urban lifestyles in favor of outdoor communities with spacious homes and room to roam. These trends are likely to fortify and expand the current migration rate, which measures 7 new residents per day joining Central Oregon communities, for an expected total of 120,000 Bend residents by 2030. Oregon itself ranked as the fourth-fastest growing state in the nation at 6.9% annually in early 2020.

“While this movement to make Bend home has driven demand and drastically reduced supply — there were 41% fewer active listings in August 2020 than there were in August 2019 — the type of home for which buyers are searching has also shifted.”

Here are some trends affecting the Central Oregon market.

First, buyers of all demographics are shifting toward larger homes in order to carve out space for each of the homes' new roles. Rough, early data shows a national increase in square footage for building permits of new homes, after a peak, drop, and slow increase in median home size since approximately 2007 (partially driven by the tiny home concept).*

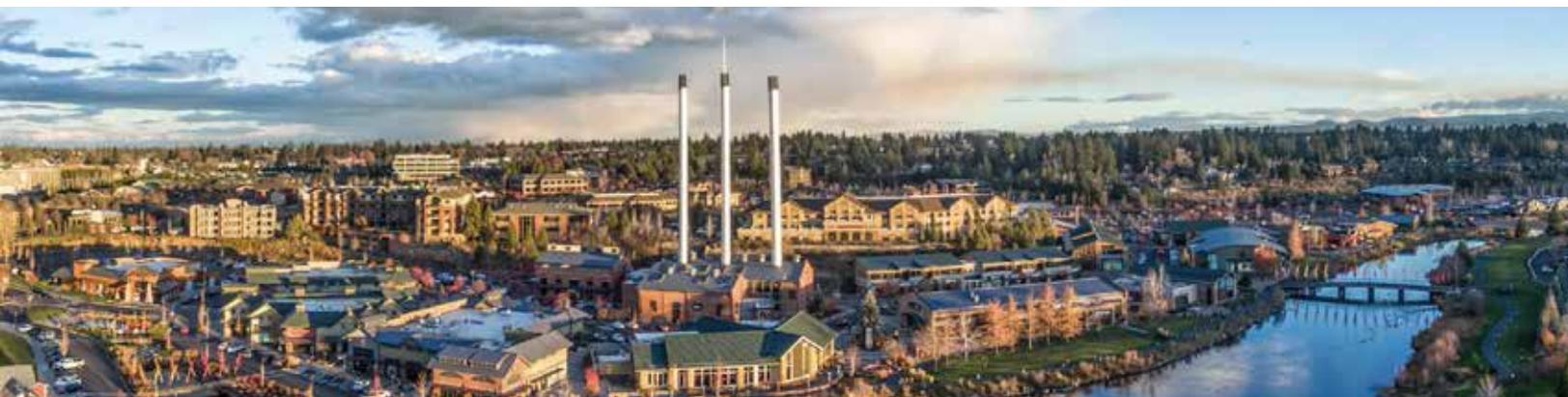
Secondly, closed parks and community amenities (pools, clubhouses, sports facilities) have driven buyers to seek larger yards and greater privacy for a more autonomous quality of life. Private hot tub sales are up 25% year over year, as one example.*

Third, multi-generational homes are in flux as some families seek to join households and maintain a family “bubble,” while others fear the risk of youth and elderly family members commingling. Closure of care facilities to outside visitors is a core factor behind this shift.

Additionally, as air travel is reduced and RV sales increase, buyers are placing greater emphasis on garage, storage, and RV hookups.

Social scientists also postulate that distance learning has led to a lighter emphasis on the school cycle as it relates to home purchases. Typically in Central Oregon, for example, buyers have been highly motivated to find a new home in which to settle before Labor Day weekend. In 2020, however, there are higher priority factors at play: buyers moving from out-of-area need extra time to sell their departure homes, for example, driving late-season purchases at record prices. The scenarios are abundant, and the data is revealing as 2020 continues to unfold.

For those sellers considering listing a home for sale, but unsure whether it is the right next step this fall or winter, we suggest a 30-minute strategy consultation to discuss the factors relevant to you.



IT'S NOT JUST ABOUT THE PRICE OF THE HOME

BY KEEPING CURRENT MATTERS



When most of us begin searching for a home, we naturally start by looking at the price. It's important, however, to closely consider what else impacts the purchase. It's not just the price of the house that matters, but the overall cost in the long run. Today, that's largely impacted by low mortgage rates. Low rates are actually making homes more affordable now than at any time since 2016, and here's why.

Today's **low rates are off-setting rising home prices** because it's less expensive to borrow money. In essence, purchasing a home while mortgage rates are this low may save you significantly over the life of your home loan.

Taking a look at the graph below with data sourced from the National Association of Realtors (NAR), the higher the bars rise, the more affordable homes are. The **gold bars** represent the period of time when homes were most affordable, but that's also reflective of when the housing bubble burst. At that time, distressed properties, like foreclosures and short sales, dominated the market. That's a drastically different environment than what we have in the housing market now.

The **black bar** represents today's market. It shows that homes truly are more affordable than they have been in years, and much more so than they were in the normal market that led up to the housing crash. Low mortgage rates are a big differentiator driving this affordability.

What are the experts saying about affordability?

Experts agree that this unique moment in time is making homes incredibly affordable for buyers.

Lawrence Yun, Chief Economist, NAR:

*"Although housing prices have consistently moved higher, when the **favorable mortgage rates** are factored in, an overall home purchase was more affordable in 2020's second quarter compared to one year ago."*

Bill Banfield, EVP of Capital Markets, Quicken Loans:

*"No matter what you're looking for, this is a great time to buy since the current low interest rates can **stretch your spending power.**"*

Mortgage News Daily:

*"Those shopping for a home can afford 10 percent more home than they could have one year ago while keeping their monthly payment unchanged. This translates into nearly **\$32,000 more buying power.**"*

Forbes:

***Homeowners are the clear winners.** Low mortgage rates mean the cost of owning is at historically low levels and who gains all the benefits of strong house price appreciation? Homeowners.*

Bottom Line

When purchasing a home, it's important to think about the overall cost, not just the price of the house. Homes on your wish list may be more affordable today than you think. Let's connect to discuss how affordability plays a role in our local market, and your long-term homeownership goals.

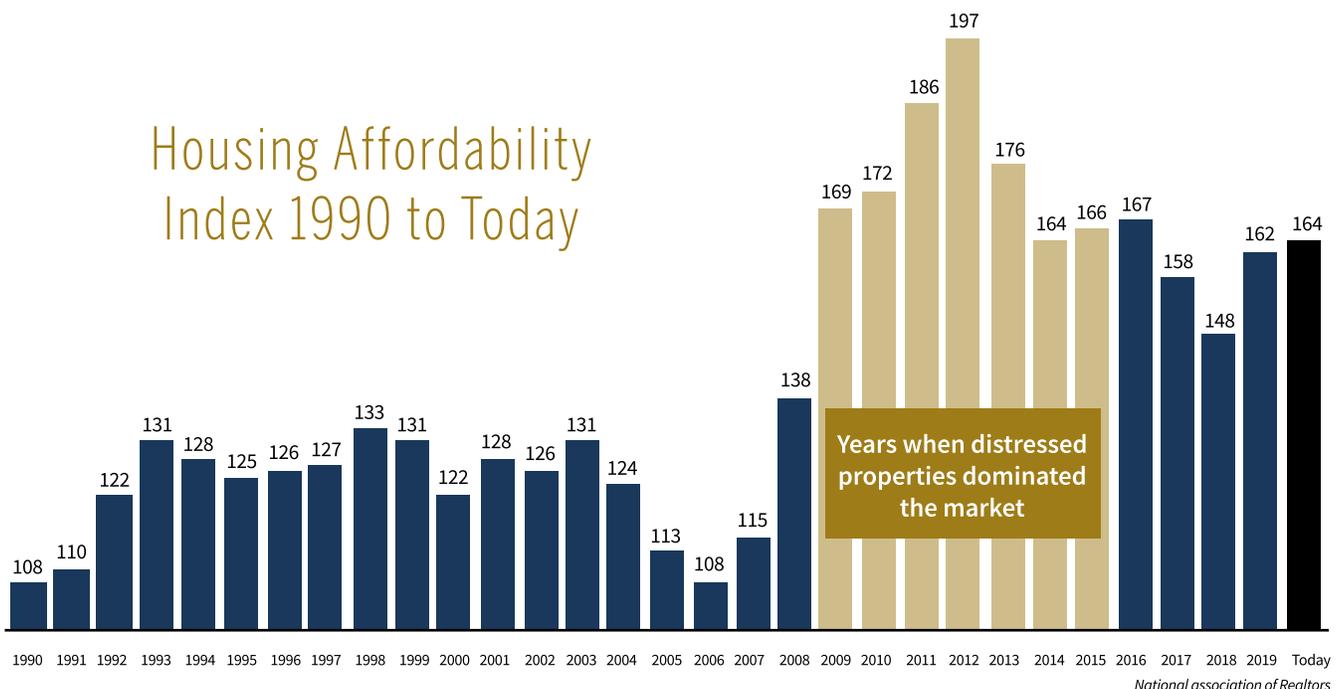


For lending questions, contact our local partner Giancarlo Gatto.

GIANCARLO GATTO

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Housing Affordability Index 1990 to Today





Cascade
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The Ladd Group
650 SW Bond Street Suite 100
Bend, Oregon 97702

2020 - CASCADE SOTHEBY'S
MARKET SHARE VS COMPETITORS

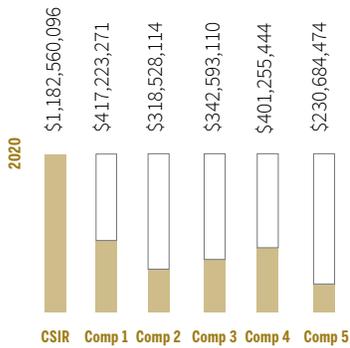


CHART 5

2020- LADD GROUP VS OTHER
AGENTS CENTRAL OREGON

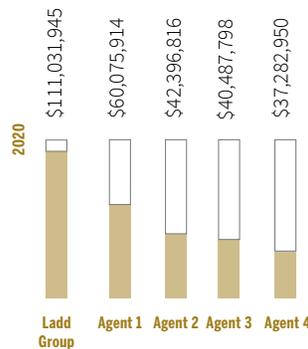


CHART 6

Volume numbers are Year to Date 2020

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The Ladd Group won't just sell you a house today.

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It's Damn. Hard. Work.